

Message Text

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ACTION EB-07

INFO OCT-01 AF-06 ARA-06 EUR-12 EA-07 NEA-10 ISO-00 IO-11

FEA-01 ERDA-05 AID-05 CEA-01 CIAE-00 CIEP-01 COME-00

DODE-00 FPC-01 H-02 INR-07 INT-05 L-03 NSAE-00 NSC-05

OMB-01 PM-04 USIA-06 SAM-01 OES-03 SP-02 SS-15 STR-04

TRSE-00 PA-01 PRS-01 ERDE-00 /134 W

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P R 061551Z JAA 76

FM AMEMBASSY LAGOS

TO SECSTATE WASHDC PRIORITY 0000

INFO AMEMBASSY ABUDHABI

AMEMBASSY ACCRA

AMEMBASSY ALGIERS

AMEMBASSY BONN

AMEMBASSY CARACAS

AMEMBASSY FREETOWN

AMEMBASSY DOHA

AMEMBASSY JAKARTA

AMEMBASSY JIDDA

AMEMBASSY KUWAIT

AMEMBASSY LIBREVILLE

AMEMBASSY LONDON

AMEMBASSY MONROVIA

AMEMBASSY QUITO

AMEMBASSY TEHRAN

AMEMBASSY THE HAGUE

AMEMBASSY TRIPOLI

AMEMBASSY VIENNA 212

AMCONSUL DHAHRAN

USMISSION OECD PARIS

USMISSION EC BRUSSELS

C O N F I D E N T I A L LAGOS 157

E.O. 11652: GDS

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TAGS: ENRG, NI

SUBJECT: ADDITIONAL PRODUCER REACTION TO NEW NIGERIAN POSTED PRICE

REF: (A) LAGOS 0044, (B) LAGOS 12088 OF DECEMBER 5, 1975

1. AS RESULT OF POSTED PRICE CHANGE, PHILLIPS PETROLEUM HEADQUARTERS HAS INSTRUCTED LAGOS MANAGER TO PREPARE REPORT ON EXPIRATION DATES OF COMPANY'S PRESENT DRILLING RING CONTRACTS IN NIGERIA AND COST OF CANCELLATION PENALTIES. PHILLIPS CURRENTLY MAKING ANNUAL REVIEW OF NIGERIAN PROSPECTS AND IS APPARENTLY SERIOUSLY CONSIDERING AS ONE OPTION A COMPLETE HALT TO ALL REPEAT ALL DRILLING ACTIVITY AS SOON AS FEASIBLE (PARTIALLY COMPLETED WELLS WOULD BE COMPLETED). CRUDE PRODUCTION WOULD BE CONTINUED FROM EXISTING WELLS.

2. AT SAME TIME, PHILLIPS LONDON HAS CABLED LOCAL MANAGER TO ACCEPT DOLLARS 12.75 MARKER PRICE FOR FIRST QUARTER 1976 DIRECT PURCHASE OF 30,000 B/D FROM NIGERIAN NATIONAL OIL COMPANY (NNOC). (PHILLIPS CONTRACT SHOULD BE ADDED TO LIST IN REFTEL (B), AND RUNS THROUGH 1976). LAGOS MANAGER SAYS HE RECOMMENDED IN STRONGEST POSSIBLE TERMS THAT HIS COMPANY NOT REPEAT NOT ACCEPT THIS PRICE, BUT IT LOOKS AS IF DECISION HAS BEEN MADE.

3. TO SUPPORT HIS ARGUMENT THAT NIGERIAN PRICE IS TOO HIGH, MANAGER SAYS NNOC NOMINATED TANKER TO PICK UP 1.6 MILLION BARRELS OF PHILLIPS 44 DEGREE CRUDE JANURY 2 FOR GELSENBERG OF GERMANY. GELSENBERG TANKER DID NOT SHOW UP. NNOC NOW SAYS IT DUE JANUARY 7. PHILLIPS MANAGER BELIEVES TRUTH IS GELSENBERG IS BALKING AT NEW DIRECT SALE PRICE (WHICH WOULD BE 12.93 FOR 33 DEGREE CRUDE). SINCE PHILLIPS HAD RELATIVELY FULL STORAGE TANKS IN ANTICIPATION OF JANUARY 2 LIFTING, MANAGER SAYS HE WILL HAVE TO SHUT IN PRODUCTION IF NNOC CRUDE IS NOT LIFTED IN NEXT COUPLE OF DAYS.

4. PHILLIPS EXAMPLE EMPHASIZES POINT MADE IN REFTEL (A) THAT BUYERS ARE LIKELY TO CAVE IN TO NIGERIAN PRICE DEMAN GIVEN CURRENT CRUDE MRKET, BUT PRODUCING COMPANIES WILL SHUN NEW INVESTMENT IN CRUDE PRODUCTION FACILITIES FOLLOW-ING REDUCTION IN MARGINS THEY CAN EARN. PHILLIPS MANAGER AGREES MOST PRODUCERS WOULD PREFER TO BE NATIONALIZED COM-CONFIDENTIAL

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PLETELY UNDER NEW TERMS. HE ALSO POINTED OUT THAT, IN ADDITION TO SHRINKING MARGINS, ARBITRARY AND ERRATIC PRO-DUCTION CONTROLS IMPOSED BY FMG CONSTITUTE MAJOR DISINCEN-TIVE TO INVESTMENT. AS EXAMPLE , HE SAID, PHILLIPS UNDERTOOK DEVEOPMENT OF TEBIDABA AND OBAMA FIELDS ON ASSUMPTION THAT THEY COULD PRODUCE UP TO 40,000 B/D AND 30,000 B/D, RESPECTIVELY. ECONOMICS OF CAPITAL INVESTMENT WORKED OUT

WITH FMG WERE BASED ON COMBINED 60,000 B/D FLOW. ONE FIELD WAS BROUGHT ON STREAM IN DECEMBER, THE OTHER WAS DUE IN JANUARY.

PHILLIPS APPLIED TO MINISTRY OF PETROLEUM AND ENERGY FOR PRODUCTION ALLOWABLE. MUCH TO PHILLIPS' DISTRESS, MPE SET ALLOWABLE LEVELS AT 16,000 B/D AND 9,000 B/D, RESPECTIVELY. AS A RESULT, PHILLIPS IS STUCK WITH EXCESS CAPACITY AND VERY HIGH UNIT PRODUCTION COSTS. LOCAL MANAGER CLAIMS INVESTMENT WOULD NOT HAVE BEEN MADE AT ALL IF MPE HAD SAID IN ADVANCE IT WOULD ONLY PERMIT PRODUCTION AT THESE LEVELS.

5. CONSIDERING THAT NIGERIA HAS BECOME LARGEST SINGLE SOURCE OF U.S. CRUDE IMPORTS, NEGATIVE EFFECTS OF LATEST FMG PRICE ACTIONS ON PROSPECTS FOR NEW INVESTMENT IN ADDITIONAL CRUDE PRODUCTION CAPACITY MERIT CLOSE ATTENTION IN ASSESSMENTS OF FUTURE U.S. ACCESS TO CRUDE SUPPLIES.

6. THIS MESSAGE AND REFTEL (A) CONTAIN SUBSTANTIAL PROPRIETARY INFORMATION WHICH SHOULD BE PROTECTED.
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*** Current Handling Restrictions *** n/a

*** Current Classification *** CONFIDENTIAL

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